

## Measuring the efficiency of financial and non-financial information using value-added and return on investment

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**Abstract:** This research aims to know the financial and non-financial data and to identify the role of non-financial data in the success of managers in the decision-making process, The most important conclusion that the research reached is that the economic value is a performance and a criterion for evaluating performance because it combines the points of compatibility and convergence between economic profit and accounting profit, the research recommended the necessity of using the economic value-added criterion in evaluating financial performance, as it is an important criterion for linking strengths and weaknesses and diagnosing obstacles, weaknesses, and strengths.

**Keywords:** Financial information, non-financial information, Value added, return on capital

### Introduction

Measuring the efficiency of information in terms of the extent of its expected usefulness or its impact on the administrative or financial decision-making process is very important, therefore, measuring the efficiency of information using the value-added measure and return on capital has an impact on knowing how efficient the administration is in getting the information out promptly, which would reflect positively on the financial return of the bank. Therefore, the technological development that occurred and the modern evaluation methods had a clear impact, represented by the scale of flexibility, innovations, productivity, and inventory, which are necessary for the management of banks to follow.

### The first topic: Research Methodology

#### A-Research problem:

The measurement of financial and non-financial data is a clear map of the company's ability to achieve pre-set goals using financial measures represented by the return on investment and the measure of added value, which allows the possibility of comparison to measure the financial performance index of the company, as for the non-financial data represented by the technological development in the company's surrounding environment, it has an important

impact because accounting is characterized by two features: continuity and change, so Companies need to reconsider their financial policies, as financial information is an important element for the success of any company, as the process of linking financial and non-financial data is a complex process so the problem is to search through:

1-Does non-financial information, through technological development, affect the company's financial performance.

2-Do financial measures have a role in the decision-making process through the nature of measurement followed.

**B-Research Objectives:** The research aims to

1-Knowledge of financial and non-financial data.

2-Understand the concept of analytical procedures.

3-Recognize the role of non-financial financial statements in the success of managers in the decision-making process.

**C-The importance of the research:** The importance of the research stems from the importance of financial and non-financial data and its role in the process of improving decision-making.

**D-Research hypothesis:** financial and non-financial information has an important impact on the process of improving or succeeding in administrative decisions at several levels using financial and non-financial measures.

## **The second topic: The theoretical aspect of the research**

### **First: Financial Information**

The concept of data differs from information despite the close relationship between them, some confuse the concept of these two terms, and others use them on the basis that they are synonymous with one meaning. Therefore, it is necessary to clarify the meaning of financial statements, a term commonly used in the plural form, singular as a statement ,It is the raw material from which information is derived, and it represents things, facts, ideas, opinions, events, and processes that express attitudes and actions or describe a goal or phenomenon, Data are defined as symbols that are abstract from the apparent meaning and are considered as raw material that can be quantitative that can be measured, and calculated mathematically or be descriptive, such as customs and traditions,..

Also, data is defined as facts that, if left as is, will not add anything to the knowledge of its users without affecting their decision-making behaviour, As for the accounting data, it is defined as the raw material that is collected and reviewed to produce information. It is the main input to the accounting information system, It expresses events and material flows of economic processes practiced by the economic unit, and may be expressed either in the form of numbers, facts, weights or shapes. (Motee', 2007: 16). The information subject to disclosure consists of financial data such as annual and interim reports, annual budget, auditor's report, number of shares, net profits and losses, the share of each share, cash flow statements, and so on (Tohma, 2013: 75).

### **A-Classification of financial information**

The classification and classification of financial information varies according to many considerations, and financial information can be classified as follows: (Sabsby, 2011: 8)

1-In terms of its meaning

A- Historical financial information, which is information related to measuring events and operations that took place in the past, such as financial statements (balance sheet, income statement, etc.) , and these reports are used to assess the efficiency of the economic unit in

achieving its objectives, and to indicate the reality of the financial position of that unit, as well as It is used for tax purposes, and despite its importance in knowing and measuring performance, it is not suitable as a tool for controlling current performance and making future decisions.

B- Current financial information: it is information prepared for internal control purposes, and it is related to the operating systems of the economic unit, and it has the following features (related to the current activity only, it is presented regularly, it is provided immediately and promptly, of an analytical nature so that it is compared Actual performance withdrawn plans.

c- Future financial information: It is estimated information prepared for planning and forecasting the future and assisting management in making sound decisions and choosing available alternatives so that this information becomes a standard and basis for judging future performance. This information is represented in planning budgets, standard costs, and others.

2-In terms of the degree of recurrence.

A- Periodic information: It is information that is prepared and provided to those in need at regular periodic intervals (annual, monthly, weekly).

B - Non-periodic information: it is the information that is used for special purposes and the need for it is specific, such as economic feasibility studies.

3-In terms of the timing of obtaining it

A- Available (ready) financial information: It is that information that is obtained quickly and directly when needed, and is prepared and prepared in advance, and is therefore useful to a large extent in making operational decisions.

B- Financial information not available (not ready): it is information that is not available when needed, which requires a longer time in preparing and processing, and is usually associated with the strategic decisions of the economic unit

### **Second: Non-financial information**

In its application of the disclosure function, the accounting profession faced great challenges when choosing the appropriate basis for accounting disclosure, determine the most appropriate disclosure method to provide credibility to accounting information and meet the needs of information users to help them make sound decisions. With the increasing economic growth in the global market dramatically.

The spread of multinational companies, technological progress, globalization of capital markets, and the emergence of new technologies in trading securities in the global financial markets, Therefore, the level of information disclosure in financial reports plays a vital role in reducing uncertainty and reducing the information asymmetry gap, which helps stakeholders in objectively assessing the performance of the economic unit. (Binh, 2012: 90).

In recent years, interest in the issue of transparency and disclosure has increased, and the level of disclosure provided by economic units within their financial reports has increased, so there is a wider variety of information other than those contained in the financial statements and the clarifications complementing them. Which companies disclose in response to the needs and requests of stakeholders for more additional information that contributes to improving the quality of financial reports and thus improving the quality of their decisions related to those companies. (Abdul Qadir, 2017: 22).

The recognition of non-financial information has recently begun, as the financial information is historical or not prepared in a timely manner, which may limit the reliability of it, on its own, it, is the opposite of non-financial information, as it is more reliable. Therefore, the External Financial Reporting Board encourages the preparation of financial reports that include non-financial information. (Kurinyepa, 2017: 20).

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1-Providing information on the accounting principles and policies used by the economic unit in preparing the financial statements.

2-Disclosing any data or information required by international financial reporting standards that do not appear in the financial statements

3- Disclosing any data or information that has not been presented in the core of the financial statements, but it may be necessary to understand any of these statements and provide them with a fair presentation.

Non-financial information includes material issues and important decisions that affect the activity of the economic unit, such as changes in the board of directors and the decision of the board of directors to change the objectives, activities and markets of that unit, or merger or liquidation , Therefore, the economic unit wishing to join the transactions in the financial markets should disclose any information that may have an impact on stock prices or the information required by the market management as a condition for dealing. (Tohma, 2013: 69).

It is clear that the disclosure of the complimentary notes to the financial statements shifts from the stage of selection to the stage of compulsion on the part of accounting standards. As for the disclosure of non-financial information, no scope has been specified, that is disclosed outside the accounting standards, while mandatory disclosure is the information required by the requirements of accounting standards or local legislation. (Armitage & Claire, 2008: 314). One of the motives of economic unit administrations to disclose non-financial information is their desire to enhance the stakeholders' understanding of the economic unit and to provide sufficient and fair disclosure and to clarify the role of non-financial information in creating value for the economic unit , From the point of view of stakeholders on non-financial information, about 35% of investment decisions have been affected by non-financial information, and a third of this information is a mandatory disclosure in some countries. (Mohamed Al-Sayed, 2020: 8).

### **Third: added value**

The term value is the principle, level, or characteristic that is considered precious or desirable, and that helps to determine whether some object is good or bad ,These topics may be thoughts, decisions, people, actions, or things(Nima, and Al-Zwaini, 2021: 381).

All over the world, investors aim for the value of returns from shares to be large and at a higher value, and the ultimate goal of each economic unit is to increase the value of shareholders. Value added is a measure of wealth that can be easily derived from published accounting numbers, the aforementioned statement is prepared at the end of the financial year when preparing the final accounts, and it is extracted based on the accounting system's classification of revenues, expenses, and opposite accounts. (Burksaitiene, 2009: 709). The aforementioned statement is prepared at the end of the financial year when preparing the final accounts, and it is extracted based on the accounting system's classification of revenues, expenses, and opposite accounts ( . Burksaitiene, 2009: 709) .The added economic value was defined as the economic value of the capital at the beginning of the year in addition to the difference between the returns on the capital and its cost. (Raman 2005: 33)

Which depend on the idea of economic income, after which is the best means of evaluation. The problem addressed by the added economic value is that it calculates the real profit by subtracting the cost of capital from the amount of profit after taxes, which is derived from the

disclosure of new income, and this can help in the business world. Investors know the companies that maximize their wealth. (Al-Saadi, 2015: 393)

**Fourth: return on investment**

The return on investment is the most famous financial tool used in evaluating the economic feasibility of projects. It represents the ratio between the earned money and the invested money. It expresses the ability of assets to achieve income expressed as a percentage of return. This ratio reveals the profitability of the economic unit in its operational and non-operating operations (Al-Subaie, 2012: 28)

The return on investment is the abandonment of the money and its current use for later periods in the hope of recovering it with higher amounts and returns, meaning the purchase of assets with a value called the capital assets that he buys the return on investment. It is the net profit realized from investing in the project, which is equal to the total value of the assets. The return on investment is measured by dividing the net profit after taxes by the total assets. (Kazim, 2015: 227).

It is one of the basic performance measures, which is presented in the form of an accounting ratio, given that its data is obtained from the accounting financial statements to form a relationship between the invested money and the rate of return that results from that invested money.

The main effects are summarized, including margin management, asset management, especially calculating the turnover rate of current assets, and finally the effect of sales, which are related to the market. The rate of return on investment is the most important performance indicator that depends on the accounting profit

The rate of return on investment is calculated using the following formula:

$$\text{Return on investment} = \text{net profit} / \text{total money invested}$$

According to this indicator, the higher this percentage, the better the performance, and it is relied upon in selecting investments and measuring their profitability, as it measures the overall performance through the main activity of the economic unit. This indicator also neglects investments that achieve returns in the long term, because it adopts the rule of accepting projects that achieve returns in the short term. (Al-Subaihi and Abdul-Kazim, 2019: 103)

**The third topic: the applied side of the research.**

The applied aspect of the Elaf Islamic Bank, one of the private banks listed on the Iraq Stock Exchange, was conducted by the last year of the last year(25000000000000)

**1-income statement**

The income statement of the Bank of the Islamic Elaf years 2012-2015

the details	0122	2013	2014	2015
Revenue of the current activity				
Revenue of service activity	37853000	25932000	30019200	
Income from banking operations	18679457108	17029070523	17473141851	11434279061
Revenue for investment	115016784	1021083407	393234016	113461331
Total current activity revenue	18832326892	18076085930	17896395067	11547740392

Current activity expenses				
Banking expenses	274161296	955813465	2819197612	710711334
Depreciation and fire	1262093354	16591449554	2331320006	2345975327
Administrative expenses	4309203360	4357070511	5608450023	3907929815
<b>Total current activity expenses</b>	<b>5845458010</b>	<b>6972028930</b>	<b>10758967641</b>	<b>6964616521</b>
Surplus of current processes	1298686882	11104057000	7137427426	4583123871
Transfer and other revenue				
Revenue of service activity	-	-	-	18608800
Other revenue	1200000	3945000	1086305	210541859
<b>Total transfer revenue and another</b>	<b>1200000</b>	<b>3945000</b>	<b>1086305</b>	<b>229150659</b>
Transfer and other expenses				
Transfer expenses	45151282	1782865881	272664605	4392113292
Other expenses	324770516	1791313925	399533673	4393926292
Total transformational and other expenses	324770516	1791313925	399533673	4393926292
Distributable surplus	12663298366	11104057000	7137427426	4583123871
Distributable surplus distributed				
Tax allocations	1916942000	1550782635	1035917080	87519094
Necessary precautions	537317820	388295272	336949003	16541457
Undistributed profits	10209038546	7377610168	5366113975	314287687
Surplus activity	12663298366	9316688075	6738980058	418348238
<b>Net profit for the year</b>	<b>10746356366</b>	<b>7765905440</b>	<b>5703062978</b>	<b>330829144</b>

The source from the researchers depending on the financial statements published in the Iraq Stock Exchange

We note through the statement of income, the profits of the bank are already decreased during 2012 (107463566,) and are gradually declined as clearly in the list of income as during 2015 (330829144), This decline does not indicate the basis for the high volume of expenses but too low banking activities and weak turnout due to surrounding circumstances loss of customer confidence in banks as a result of a work.

**2-Balance sheet**

Below is the list of the Balance sheet

	2012	2013	2014	2015
Current assets				
Cash on hand and at banks	239408144013	138086110814	137732601464	29650700415
Investments	4088636700	4088636638	1088636638	485648278
cash credit	47068600070	109462561859	114096625342	132847573403
Debtors	56659551760	26914248468	36074879429	50437307130
<b>Total current assets</b>	<b>347224932543</b>	<b>278551557779</b>	<b>288992742873</b>	<b>480274229226</b>
fixed assets				
Fixed assets at book value	9138194579	11278514009	13240349750	26875869513
Deferred revenue, Expenditure	4395739272	4767714435	5650321424	3885960460
Projects under Implementatio	19894278871	18557123265	16501063388	342924830
<b>Total assets</b>	<b>380653145265</b>	<b>313154909488</b>	<b>324384477435</b>	<b>514465302029</b>
Short-term financing Sources				
Current accounts and deposits	122962716573	112273675316	88774020600	188932067939
The creditors	121972504154	23746621559	54687662164	70820438543
Income tax provision	2335516000	3886298635	1971417715	90467479
<b>Total sources of short-term financing</b>	<b>247270736727</b>	<b>139906595510</b>	<b>145433100479</b>	<b>259842973961</b>
Sources of financing are lon term				
Nominal and paid capital	100000000000	152000000000	152000000000	250000000000
Reserves	338382408538	21248313978	26951376956	254622328068
<b>Total financing sources are long term</b>	<b>380653145265</b>	<b>313154909488</b>	<b>324384477435</b>	<b>514465302029</b>

The source from the researchers depending on the financial statements published in the Iraq Stock Exchange

A-We note through the statement of financial position that the bank focused on investing in other banks, some projects, and it is an attempt from them to reduce risks, as it amounted to investment during the years in question Respectively. ,1088636638 ,485648278) (4088636700 ,4088636638

B-The total assets over the years over the research period formed (514465302029, 324384477435, 313154909488, 380653145265) respectively, if the current assets constituted the largest share of them, and this depends on the nature of the bank’s work, as it formed (480274229226, 288992742873, 278551557779, and 347224932543) respectively. Assets increased significantly during the year 2015 and were also accompanied by an increase in all the joints of the statement of financial position, and this indicates that the bank started to follow a new financial policy.

**3- The value-added measure**

The use of the economic value-added scale is often used in industrial companies to measure their performance and financial efficiency, but through this research, we try to use the measure of economic value added in Iraqi commercial banks to measure the efficiency of

their financial performance and operations, and the extent of their use and keeping pace with the technological development taking place

A- EVA Calculation

Economic value added = adjusted net operating profit after taxes x (adjusted investment x average cost of capital)

Through the statement of financial position and the income statement, the economic value-added law can be applied after the amendments

If the income statement shows a clear decrease in the income of the current operations of the bank, which is an indication of the inefficiency of management if it reached during the years under study

1298686882 ,11104057000 ,7137427426 ,4583123871 respectively

The measure of the added value of the bank will be calculated during the year 2015 after amending the income statement and the financial position of the bank according to the requirements of the standard.

Net income (2015) 4583123871

interest expense 4392113292+

(87519094)Income tax-

**net operating income after taxes 50135718119**

Total Assets (2015) 514465302029

(0)R&D Expenditure+

Current Liabilities 70820438543-

**Adjusted investment = 44364486311**

The average cost of capital to total assets = 48.59%

Economic value added = 50135718119 x (44364486311 x 48.59%)  
 dinars= 10807608323

It is a good criterion for the bank's performance work, and this indicates that the bank is going in the right direction and shows a high economic value compared to the total assets and invested capital, and this indicates that the management follows the tools and methods that would enhance revenues.

**4- A measure of return on capital**

The return on capital indicator is an important indicator for measuring performance, as the rise of this indicator indicates the success of the management in achieving the desired goals.

Return on capital = net profit / total money invested

It can be calculated for the year 2015.

Return on capital = 330829144 / 250000000000

=%0.132

We note that the rate of return on capital amounted to 0.132%, which is a low indicator compared to the total capital

**Measuring non-financial information5-**

A bank's non-financial information can be measured by a measure of quality, inventory performance, flexibility, and innovation. Non-financial performance measures are considered an essential tool for strategic control, as they represent an attempt to emphasize the importance of directing internal operations..

**Conclusions and recommendations: : Fourthly**

First, the conclusions

1-The economic value is a performance and a criterion for evaluating performance because it combines the points of compatibility and convergence between economic profit and

accounting profit. It was noted that the use of this criterion in evaluating performance was weak.

2-The return on investment indicator is one of the important indicators in providing the necessary information for the performance evaluation process

3-There is a weak use or non-use of non-financial measures by the bank management. This is a problem that most companies suffer from in general.

4-The rate of return on capital was low compared to the amount of money invested, and this indicates the weakness of management in following successful financial policies

### **Second: Recommendations**

Researchers recommend several things, including

1-The necessity of using the economic value-added criterion in evaluating financial performance, as it is an important criterion for linking strengths and weaknesses, and diagnosing obstacles, weaknesses and strengths.

2-The necessity of using non-financial measures in evaluating performance to keep pace with changes and technological development in various fields.

3-The necessity of providing financial and non-financial information only for planning and forecasting the future and assisting the administration in making sound decisions and choosing the available alternatives, so that this information becomes a standard and basis for judging future performance. This information is represented in planning budgets, standard costs, and others.

4-It is necessary to pay attention to the non-financial information, since the financial information is historical or not prepared promptly, which may limit the possibility of relying on it alone, unlike the non-financial information as it is more reliable.

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